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Article (Accepted Version)

Robinson, Gary (2017) Pragmatic financialisation: the role of the Japanese Post Office. *New Political Economy*, 22 (1). pp. 61-75. ISSN 1356-3467

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Pragmatic Financialisation: The Role of the Japanese Post Office

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This is an Accepted Manuscript of an article published by Taylor & Francis in New Political Economy on 6th June 2016, available online:
<http://www.tandfonline.com/10.1080/13563467.2016.1195347>.

Date: 6th April 2016

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Keywords: Japan, financialisation, post office, savings, banking, privatisation

Acknowledgments: This paper is based on a dissertation written while completing a Masters in Global Political Economy at the University of Sussex. The author acknowledges the assistance of his dissertation supervisor and lecturers and further acknowledges the comments of three anonymous referees.

Abstract

The Japanese Post Office, one of the world's largest financial institutions, was finally privatised in 2015, marking an appropriate time to examine financialisation in Japan. Literature on financialisation and changes in Japanese capitalism assumes convergence on Anglo-American capitalism with a diminishing of state power. The main argument of this paper is that financialisation is instead a more contingent process. This is put forth through an examination of how this process has been mediated by the Japanese state through the workings of the Japanese Post Office. The state has frequently shaped the direction of financialisation by intervening in the routing of household funds via the postal savings system in order to achieve its objectives in different circumstances, particularly evident in the protracted and contested nature of the post bank's privatisation. Financialisation is thus not preordained; instead its path is hewn by crisis, catastrophe, demographics and the agency of domestic social actors.

Introduction

Japan's slide into prolonged economic stagnation during the 1990s followed the bursting of an asset-price bubble which brought an end to predictions of global economic dominance in a '*Pax Nipponica*' (E. Vogel 1986: 752). Its decline was almost as spectacular as its ascent had been before, as government debt levels rose hugely (Kang 2010: 558). Anglo-American capitalism's renewed success was built on neoliberal policies and a dynamic and all-powerful financial industry. It seemed to now offer the best path to prosperity amounting to an endorsement of calls for wholesale changes to the Japanese system (Streeck and Yamamura 2003: 9-10). Successive prime ministers implemented reform agendas of liberalisation, deregulation and privatisation, most recently aimed at creating a 'fully competitive, effective, and efficient financial system' (Hoshi and Patrick 2000: 26).

The global economic crisis has been described as 'one outcome of the financialisation of contemporary capitalism' (Lapavistas 2009b: 114). The financialisation literature analyses systemic changes in advanced capitalism over the last 30 which are linked with diminished government powers (Epstein 2005: 3) through the advent of the neoliberal paradigm in the early 1970s (Kotz 2008: 10-11). Especially pertinent because of Japan's main bank system is how banking and its close connection to workers'

personal income has been transformed (Lapavitsas 2009a: 6). Some authors have seen the trajectory of transformation in Japan as echoing what has already happened in other mature capitalist economies; inevitable convergence on neoliberalism and a loss of power through continual competitive liberalisation among states because of pressures from global financial markets (Cerny 2001; Dore 2000a, 2000b). However, while the trend towards financialisation in Japan is acknowledged (Lapavitsas 2009b: 127) none of the above literature investigates the extent of or the manner in which this has proceeded. A further problem lies in the realm of power. Representations of financialisation as unstoppable convergence on Anglo-American capitalism present it as a continual lessening of state power.

However, the outcome of financialisation is not preordained but is heavily contingent, particularly because the agency of the state is still crucial. The Japanese system of ruling by consensus has been characterised as an “iron triangle” between politicians, bureaucrats and big business in which ‘the politicians reign and the bureaucrats rule’ (Johnson 1982: 316). Besides overstating the consensual nature of Japanese governance, this does not sufficiently capture the complexity of relationships between ‘shifting coalitions of diverse interests’ (Leftwich 1995: 406). These relationships are profoundly political (Curtis 1999: 9) and are embodied in the workings of the Japanese Post Office, a pivotal state institution with contradictory

interests (Moran 1991: 107). The significance of the post office lies in its involvement in the ‘transformation of everyday saving’ which is ‘contingent’ and ‘contested’ (Langley 2008: 240). As it attempts to gather household deposits to mobilise for state use, its actions heavily impinge upon and are impinged upon by other actors in the financial system. Until recently the largest financial institution in the world, it plays a special role in the financial system that is unparalleled elsewhere (Cargill and Yoshino 2000: 201-3). Delayed since 2007, its privatisation finally took place in late 2015 and marks an opportune occasion to examine its role with regard to financialisation in Japan.

The main aim of this paper is to complement the financialisation literature by examining how it has unfolded in Japan. This will be undertaken by studying the workings of the state through the post office, an institution with a singular role in the Japanese financial system. In detailing the specific way in which financialisation has developed, this paper will help to account for a lack of convergence on Anglo-American style neoliberalism. The paper is structured as followed; I first examine some of the work discussing financialisation and changes in Japanese capitalism. Following this, I borrow from work in the institutionalist tradition differentiating between neoliberalism as ideology and as practise and ally this with work on the structure/agency debate within critical theory. Finally,

following an account of the origins of the Japanese financial system, I embark upon an analysis of how the post office has mediated financialisation in Japan from the 1970s until its privatisation in late 2015.

Transformations in Japanese capitalism

Financialisation has been defined as ‘the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies’ (Epstein 2005: 3) with this ‘dominance of finance over industry’ coming ‘at the expense of real investment’ (Fine 2009: 3-6). The concept has arisen in an attempt to correlate flourishing finance with the poor performance of production and to understand the systemic and structural transformation of mature capitalist economies since the 1980s (Lapavistas 2011: 611). It is linked to neoliberalism (Fine 2010: 22) via a reduced role for the state (Epstein 2005: 3). The financialisation literature has an overwhelmingly Western focus and is particularly US-centric (Casey 2011; Krippner 2005; Orhangazi 2008a; 2008b). However, the US is ‘an ideal type of financialization in an exceptional macroeconomic environment’ (van Treeck 2009: 922) and much of the literature has not provided an account of the extent to which the process has unfolded elsewhere. A significant characteristic, particularly

considering Japan's bank-centred financial system, is a change in the operations of banks (Lapavistas 2008, 2009b; dos Santos 2009).

Japanese capitalism differs from Anglo-American capitalism in some key ways, namely: a favouring of employees over shareholders; a preference for doing business on the basis of relationships built over time, including relational banking; a less competitive and more co-operative approach towards competitors; and a strong role for the state in supplying public goods and arbitrating between private actors rather than allowing the market to decide (Dore 2000a, 23-48). A pivotal element of the developmental state's successful operation is the governance of the financial system, in particular the relationship between the government and the banks (Cerny 2005: 90). The interlocking institutions providing the fundamentals of this system were the strict rationing by the Ministry of Finance (MOF) of foreign exchange, the strict and strategic apportioning of domestic capital to particular infant industries, and the set of informal and formal practices known as administrative guidance whereby supervising ministries effectively told banks and firms 'how to run their businesses' (Cerny 2001: 105-6).

Financialisation is 'a convenient word for a bundle of more or less discrete structural changes in the economies of the industrialized world'

(Dore 2008: 1097) which are gradually also affecting Japan for a number of reasons; the changed economic circumstances of the end of the high-growth developmental state era; the apparent superiority of the American model after the decade-long economic stagnation of the 1990s; long-term changes in Japanese values as its society becomes less homogenous (Dore 2000a: 51-70). While pressures for liberalisation come from domestic state and business actors in response to declining competitiveness and from neoliberal and internationalist-minded elements (Cerny 2001: 100-3; Cerny 2005: 97-101), there is 'a deep structural tension ... between the internationalization of finance, on the one hand, and national economic policy autonomy, on the other' (Cerny 1996: 87). Convergence on the US model of capitalism is held to be unstoppable (Dore 2000a: 220; Cerny 2001: 116, 2000: 32), constraining the ability of the state to direct the flow of funds within the economy and instead ensuring that investment flows to market-determined uses (Cerny 2001: 109).

However, an inexorable shift towards neoliberalism in Japan has, as yet, not been borne out and is held to be exaggerated, while compliance with international regulatory standards has been superficial (Walter 2006: 418-9). The assumption of convergence on neoliberalism, as states are increasingly disempowered to resist the changes foisted upon them by processes outside their control, obscures the choices made by actors in influencing the course

of financialisation. The problem with assigning social transformation to processes which actors do not have the capability to direct, such as the perceived imperatives of globalisation and financialisation, is that it entails a degree of fatalism (Hay 2007: 87). Although it is certainly evident that there have been changes to Japan's financial system as a result of liberalisation and deregulation, some commentators contend that economic nationalism is a crucial driver of how liberalisation has been shaped (D. Hall 2004: 80). Accordingly, what is important is not the amount of state intervention but the nature of it and the objectives which it intends to achieve. This challenges the assumption that financialisation results in a weakening of state power, with states forced into a continual loss of autonomy through competitive liberalisation and deregulation. Thus, while acknowledging the influence of various actors, the aforementioned literature presents a sometimes structural consideration of power in which agency is reduced and depoliticised as agents' destiny is determined by processes beyond their control (Hay 2007: 67).

Alternative views stress the opportunities for action that globalisation grants states. Here, adaptation to the challenges of globalisation rather than convergence on a neoliberal type of state is seen as a more likely outcome because of the flexibility that states exhibit in responding to the challenges posed by change and in handling the

interaction between government and business (Weiss 1997: 26-7). In the following sections, I ally some writing on agency in critical theory with work distinguishing neoliberal practice from ideology. Informed by this, I undertake an examination of financialisation in Japan focusing on the post office. The objective is to explain the absence of convergence on neoliberalism, perceiving financialisation as a contingent and political process rather than the inexorable unfolding of a structural logic.

Re-institutionalising control

In aiming to ascertain the manner in which financialisation, a process of social change, has been mediated in Japan, critical theory is the most appropriate method because it ‘does not take institutions and social and power relations for granted but calls them into question’ (Cox 1981: 129). In structural approaches to social change, power is presented as being ‘embedded in the very structure of society’ and this obscures from view ways to see how it is possible to overcome the tendencies which are implicit in the structures themselves (Knafo 2010: 493). Critical theory deals with ‘a continuing process of historical change’ (Cox 1981: 129), thus, historical analysis of structures and power ‘from the perspective of the agents involved and the change that they generate’ (Knafo 2010: 512) allows a

shift from structural theories of financialisation towards showing its specificity in the context of Japan by prising apart practice from ideology.

Akin to a Polanyian ‘disembedding of finance from institutional frameworks and political authority’, much of the critical IPE literature portrays financialisation and neoliberalism as a process of financial markets becoming deinstitutionalised as they are liberated from an older (pre-1970s) institutional environment (Konings 2009b: 93). However these changes are better understood as one institutional framework being replaced with another (Konings 2007: 27). The notion of a decline in political capacities *vis-à-vis* markets through deregulation is a powerful part of neoliberal ideology although this is not congruent with neoliberalism as practice (Konings 2009a: 110). Indeed, deregulation is not so much driven by ideology as by the necessity of having to respond to ‘financial dynamics which had already gathered decisive momentum’ by reconfiguring the legal environment in which they operate (Panitch and Konings 2009: 69). Rather than an outright ‘retreat of the state’, neoliberalism involves ‘a complex process of re-regulation’ (Konings 2009a: 110) and the ‘creation, legitimation and consolidation of new relations of control’ (Konings 2010: 742).

Financial life in its entirety and down to its roots ‘is made up of relations of control supported by very complex institutional mechanisms’ (Konings 2009a: 122). In other words, it is about power and power is about agency, or how social forces attempt ‘to develop means to relate to a social reality that partly escapes their control and which they seek to influence or change’ (Knafo 2010: 510). While structures are ‘intimately tied to agency’ (Knafo 2010: 510) and create demands on behaviour, they do not automatically determine that there is only one way to respond to these demands (Knafo 2010: 504). The salience of institutions in the wielding and operation of power occurs through how they ‘leverage agency’ by transforming power from a ‘personal and direct relationship’ to a ‘structural, indirect relationship’ as social actors ‘only relate to institutional structures in the process of relating to other agents’ (Konings 2009b: 76). Institutions are ideological in nature and are necessarily opaque in order to grant them legitimacy and preserve the stability of social control (Konings 2010: 743) as ‘the state aims to make power work, not to expose its contradictions’ (Konings 2009a: 124). The public image of state institutions, such as the post office in Japan, are therefore integral in legitimising relations of control because a change in perception can provide the impetus or pretext for a change in these relations.

However, the difficulty in exerting power in constantly changing social contexts which create obstacles to achieving aims requires the introduction of a pragmatic dimension to the way structures are exploited. The pragmatic element in turn ‘shapes the motives that drive power’ as actors must constantly ‘adjust their strategies in order to gain leverage over what escapes their control’ (Knafo 2010: 510). Structural analysis tends to obscure agency but this can be overcome by focusing on ‘what is being achieved through ... structures, rather than simply on the product that results from these actions’ by focusing on the agency of powerful social actors (Knafo 2010: 505). Rather than being a ‘teleological structural process, the socialization of capitalism has been mediated by concrete social agents’ (van den Berg 1995: 376).

Some accounts of financialisation and the globalisation of finance present it as an attenuation of state power and convergence on an Anglo-American, or neoliberal state, presuming that financialisation can only occur in conjunction with neoliberalism. Similarly, in challenging the association of financial speculation with liberalism, speculation has in the past emerged in ‘specific institutional structures’ not necessarily associated with liberal forms of governance (Knafo 2009: 128). Because ‘specificity is a historical question and concerns the nature of power, not the degree’ (Knafo 2013: 5), I now investigate how the process of financialisation has been mediated in

Japan. The immediate context for this is an account of the origins of the Japanese financial system.

The Japanese financial system

Japan's financial infrastructure has largely existed since the Meiji period, beginning in 1868, which saw the introduction of capitalism. Wary of being colonised by the Western nations, the Meiji government implemented modernising reforms, modelled on the US and various European states (Malcolm 2001: 60). Pre-dating banks, a postal savings system (PSS) similar to that in the UK had been established in 1875. The population was induced to save through a combination of security, interest returns, and state campaigns. Control of the funds was allocated to the MOF and these were initially used to finance the state budget (Ferber 2002: 143).

The post-World War I recession was intensified by the 1923 Great Kantō Earthquake. Bankruptcies in 1927 caused by speculation, together with the deeper financial crisis of the 1930s and the war effort saw a change from lax regulation to 'stability and the channeling of finance for the achievement of public goals' (Vitols 2001: 11). Aided by the government's industrialisation drive, the *zaibatsu*, oligopolistic industrial conglomerates, came into being (Goldsmith 1983: 62-3). Bonds and equity provided most

finance, however regulation in response to economic instability and demands for patriotic saving to meet war requirements led to bank finance gaining precedence (Franks, Mayer and Miyajima 2009: 9-12; Horiuchi 1996: 171-2).

Following the Second World War, the US occupying forces set out to rebuild the Japanese financial system after the US model. They separated commercial and investment banking, where no such separation had previously existed (Dale 1990: 35), but with the need for a capitalist bulwark, the US decided against further weakening the pre-war capitalist class and industrial base and backpedalled on full *zaibatsu* reform (Burkett and Hart-Landsberg 2000: 93-4). Postal savings had previously financed the war effort but from 1953 were used to fund industrialisation (Calder 1990: 49). The reformed *zaibatsu*, now called *keiretsu*, were rebuilt around main banks and under state influence (Cumings 1987: 64).

A main bank system features a long-term relationship between a firm and a bank in which the bank provides credit but also has a role in corporate governance and monitoring through equity holdings (Aoki and Patrick 1994: 3). Japan's system was also characterised as the "convoy system" as it moved at the speed of the slowest member in order to prevent bankruptcies; banks were given protection and guidance by regulators and

had to rescue businesses when required (Takahashi 2002: 127). Interest rates were regulated by the MOF, partly to maintain control over the financial system (S. K. Vogel 1996: 176). The post office fell under the jurisdiction of the Ministry of Posts and Telecommunications (MPT) which determined its interest rates (Calder 1990: 32).

The post-war system was based on isolation from international capital markets and resistance to free trade and capital flows, favouring instead the profitability and market share of domestic oligopolies who shared network relationships in predictable markets (Pempel 1999: 911-2). This system evolved in a stable political environment composed of four pillars: public consensus on achieving economic parity with the West; the existence of interest groups with political connections; a powerful and prestigious bureaucracy; and the uninterrupted rule of the Liberal Democratic Party (LDP) (Curtis 1999: 39). High economic growth came to a sudden halt with the end of the fixed exchange rate system and the oil-price shock of the early 1970s (Cargill and Royama 1988: 112, 127). Regulatory reform became continuous thereafter in response to a changed financial environment, necessitating a rethink of tactics and strategy (Cargill and Royama 1988: 21).

Financialisation in Japan

Three essential and interconnected features of financialisation, concern the role of banks: the reduced reliance of large corporations on bank loans; the resultant refocusing of banks activities on households and investment banking; and the subsequent increased financial involvement of households as asset holders and debtors (Lapavistas 2011: 611-2; dos Santos 2009: 180-1).

Corporations and bank finance

Since the 1970s the traditional trend of bank-based finance in Japan has changed. Both the US and UK, often represented as market-based, are more accurately highly internally financed. Japan appeared to have converged on this system during the late 1980s and early 1990s. Large firms' decreased reliance on bank finance meant that banks increased their lending to smaller firms and to businesses in the real estate, construction, finance and insurance sectors, which contributed to the asset price bubble. The subsequent asset crash and banking crisis were exogenous to firms and made both bank and equity finance unattractive. In response large firms lowered levels of investment and increased their use of internal finance, however smaller firms remained significantly bank-based (Corbett and Jenkinson 1997; Suzuki and Cobham 2005). Some apparent indications of financialisation, such as combining commercial and investment banking,

and reduced reliance on bank finance, are not historically unprecedented in Japan. They existed in the pre-World War I institutional structure and therefore do not necessarily signify convergence on Anglo-American norms.

Transformation of banks' activities

Consequently, Japanese banks have transformed their activities with increased involvement in securities markets and a shift towards households. The MOF was convinced by the mid-1980s that it needed to end the strict compartmentalisation of the financial sector but favoured stability over efficiency (S. K. Vogel 1994: 238). Some barriers between banks and securities firms were lowered in 1992 (Kawai 2003: 27) and the removal of further barriers between the two sectors and the insurance sector was announced as part of the 1996 Big Bang. Contrary to the assertion that this was an attempt to attract international capital (Cerny 2005: 93) this has been considered an attempt to create new 'national champions' (Malcolm 2001: 163). However, the removal of this separation was more rhetoric than practice involving concessions and compromise. The MOF used it 'as a means to restore the balance of interests and power between market players' and to maintain the convoy system (Malcolm 2001: 105-10). Before the mid-1970s commercial banks were more interested in focusing on the business sector as consumer credit took up only a small share of their loan portfolios (Cargill and Royama 1988: 33). Only in the 1980s did they begin

to view the household sector as a profitable market (Cargill and Yoshino 2000: 222).

Household involvement

The turn towards households is connected to the financialisation of workers' revenue. Households have decreased savings and increased borrowing while also increasing their holdings of financial assets to cover for stagnant wages and increased private provision of previously public services. The increased privatisation of workers' consumption is also increasingly mediated by financial institutions, enabling them to profit from workers' assets and ultimately routing savings to the stock market via various funds (Lapavistas 2011: 620).

Wage growth in Japan has stagnated since the mid-1970s (McKinnon 2007: 314). Japan was a high-saver country until this time but no longer is, chiefly because of the aging population (Horioka 2008: 37-47; 2009: 2). Currency and deposits continue to be the most popular use of household funds by far, although their popularity has declined slightly since the high growth rate period and has been largely offset by a rise in insurance and pensions since the early 1980s. While the proportion of household funds held as securities has fluctuated, it is recently about the same as in 1975 (Cargill and Royama 1988: 38; Bank of Japan 2015: 5).

Privatisation of public services has generally been extremely slow. There are as yet no charges for education in Japan so education-related debt is not a factor (Forrest and Hirayama 2009: 1003-1010). Nor is healthcare-related debt as universal healthcare has been provided since 1961 (Shibuya, et al. 2011: 68). The pension system features a basic national pension for all, employee pension insurance, and since 2001, a personal retirement account (Hur 2010: 383). In the past, high savings rates meant a corresponding low rate of borrowing and with the more recent lower levels of saving, borrowing to finance general consumption has increased, although consumption is still low by G7 standards (Horioka 2004: 13-9). During the bubble period, household asset wealth effects were mostly confined to corporations. Household saving increased during the 1990s due to higher mortgages and the decline in land and asset prices (Maki 2006: 20-1).

Japanese households thus maintain conservative asset portfolios consisting largely of deposits and housing, do not invest heavily in riskier assets, and their exposure to debt is smaller than in the West (Nakagawa and Yasui 2009: 76). In the following section I examine the key role of the post office in dictating the manner in which the financialisation process has unfolded.

The role of the post office

While the US abolished its PSS in 1966 as an anachronism, as an ‘agent of state economic power’, the Japanese Post Office ‘has no direct analogue’ (Calder 1990: 35). Its operation has been contentious and epitomises the nature of policy-making and financial reform in Japan which is most commonly ‘a story of bargaining and conflict between fractions of the state allied to groups of competing interests inside the industry’, where the various players ‘group and regroup in complex and shifting alliances according to the way particular regulatory issues affect their own complex interests’ (Moran 1991: 106-7). Although the post office has been a pivotal actor, it is not a unitary one and at different times opposes change and instigates it through innovation (Moran 1991: 107). Through this institution the Japanese state has influenced financialisation in crucial ways.

Use of household savings

Since the 1940s, US households were encouraged to take ‘a direct personal stake’ in equity markets, preceding neoliberalism’s mass investment culture (Aitken 2005) however, in Japan the ‘national saving behaviour’ is central (Meerschwan 1991: 218). Until the 1980s, the PSS built market share by aggressively pursuing deposits at the expense of banks because of ‘systematic government support’ (Calder 1990: 44-5). Additionally, its services were attractive to tax evaders (Cargill and Yoshino

2000: 210-3). PSS dominance hindered development of investment opportunities for households and perpetuated a high rate of saving. Although banks frequently complained, they prioritised the business sector over households. Mortgage and consumer credit took up only a small share of banks' loan portfolios during the high-growth period because the household sector was 'a supplier ... rather than a user of funds' which the financial system used to serve industry (Cargill and Royama 1988: 33). The PSS offered a slightly higher interest rate than banks, with earlier MOF attempts to deregulate deposit rates encountering political opposition. This, plus the reduced demand for corporate funding referred to earlier, meant that banks began calling for the liberalisation of interest rates and the relaxation of restrictions on offering new investment products and on diversification into new customer and portfolio areas (Malcolm 2001: 72). The PSS enjoyed favourable treatment for a number of reasons: it fell not under the regulatory jurisdiction of the MOF, but of the MPT; and it had powerful political allies, with even the opposition Socialists supporting PSS expansion (Calder 1990: 46).

The post office was essentially a state bank but with deeper political implications because of how its funds were used. Funds were deposited with the Trust Fund Bureau (TFB) which was administered by the MOF and from there were channelled to the government's Fiscal Investment and Loan

Program (FILP). Hence the MOF, despite banks' leverage within it, also had an interest in maintaining a stable source of funds from the PSS.

The use to which this opaque “second budget” was put was decided by MOF and LDP officials (Calder 1990: 45-9). These uses encompassed financing industrial development, housing, projects to improve living standards, helping small businesses (Doi and Hoshi 2003: 42), but also financing pork-barrel projects (Amyx, Takenaka and Toyoda 2005: 25-7). The use of FILP funds to support housing obstructed banks' entry to the mortgage market until the late 1990s, although it has since expanded (Forrest and Hirayama 2009: 1006). The state has strategically used PSS funds since the early days of the financial system. Postal savings have had indirect effects on economic growth patterns through the uses to which funds have been put (Calder 1990: 49) but have also had direct effects on household saving and borrowing rates and on bank interaction with consumers.

Public debt, liberalisation and reform

A salient function of the PSS was that it allowed the state to borrow from the population, thus decreasing reliance on global markets, without expanding the monetary supply and was therefore a non-inflationary way to fund government deficits (Calder 1990: 51). This became particularly

important with the end of the fixed exchange system and the oil shock in the early 1970s. Government borrowing had risen steadily since the 1960s, partly on public projects to maintain LDP support and then to stimulate growth in response to the oil shock (Malcolm 2001: 72-3). Rising government debt funded by the PSS ‘became the spur that set the process of Japanese financial liberalisation in motion’ (Norville 1998: 116). To finance the ever-growing deficit, the bond markets were deregulated to permit more flexible methods of flotation which in turn stimulated secondary market development and increased pressure for interest-rate deregulation (M. J. Hall 1998: 20-1). The Japanese Government Bond (JGB) rates, which had been artificially low, anchored all rates, hence deregulation undermined the previously rigid interest-rate system. Politicians were unable to oppose the new regulation as they had initiated the increased borrowing (Malcolm 2001: 73).

Due to general agreement that past policy had been effective in generating high growth, there was no intense intellectual debate regarding liberalisation, unlike in the US. There, debate centred on the supposed evils of inflation, allowing ideas and policies which became the neoliberal paradigm to take root (Blyth 2002: 150). Although some state elements, such as the BOJ, are ideologically committed to liberalisation (Werner 2005: 313), bond market liberalisation in Japan was a pragmatic response by

regulators because of the recognised incompatibility of the financial system with the effects of slower growth (Cargill and Royama 1988: 113) and was prompted by PSS-fuelled debt.

Gradual financial reform was already firmly underway by 1983 but increased integration into global markets led to US demands for a rise in the value of the yen. The MOF published reform blueprints and while the substance satisfied foreign governments, the slow pace of implementation did not (M. J. Hall 1998: 23-4). However, this gave regulators the opportunity to use US pressure as a scapegoat to ‘make politically difficult internal changes that disrupted long-established relationships in the financial system’ (Cargill and Royama 1988: 125). Reforms in 1988, notably the end of tax exemptions on interest, saw PSS deposit growth slow. While these reforms allowed banks to compete for deposits, the MPT compensated for the loss of tax-free savings by being allowed to independently manage more of the deposits rather than diverting them to FILP. This increased indirect household investment in capital markets and benefited financial intermediaries; securities firms, fund advisors and brokers to the MPT (Calder 1990: 57-8; Cargill and Yoshino 2000: 217-8).

Domestic crisis and scandal

The banking crisis of the 1990s saw a loss of confidence in the banks and deposits shifting back to the PSS (T. Suzuki 2007: 179). In order to restore confidence, the MOF and MPT agreed on some measures to lessen the attractiveness of the PSS (Cargill and Yoshino 2000: 219). The inept handling of the banking crisis caused a loss of confidence in the government, with politicians and ministries scrambling to protect their own power and avoid blame (S. K. Vogel 1999: 14; Immergut and Kume 2006: 4). The Big Bang of 1996 did not affect the post office but, prompted by public loss of faith in the bureaucracy due to scandal, the Hashimoto cabinet announced a programme for administrative reform, including privatisation of the post office (Amyx, Takenaka and Toyoda 2005: 33-4). Nearly every ministry benefitted from FILP and was hence loath to support reform (Amyx, Takenaka and Toyoda 2005: 30). Resistance from opposition parties, the MPT and some factions within the LDP forced a compromise instead of privatisation, with the intention of using market discipline to prevent savings from going into unproductive public investments (Vollmer, Dietrich and Bebenroth 2009: 10). Postal savings and insurance funds were to be no longer channelled to FILP but were instead invested in financial markets with FILP now raising most of its funds by issuing its own bonds (Doi and Hoshi 2003: 39, 57-8). Although this removed the automatic direction of PSS funds, they could still be ‘substantially used for FILP through the

purchase of government bonds' (Ministry of Finance 2011: 41). This new market-based relation of control was thus a result of domestic political struggles and further increased indirect household involvement with capital markets.

Privatisation

Junichiro Koizumi was elected prime minister in 2001 on the agenda of post office privatisation for three reasons: to reduce financial sector inefficiency; to relieve PSS funds from the control of vested interests; and to reduce bureaucratic misuse of public funds (Vollmer, Dietrich and Bebenroth 2009: 11). Although political opposition used anti-American rhetoric, privatisation was driven mainly by domestic competitors (Suginohara 2008: 853-5). Internal party differences in Japan were usually about power rather than ideology (Beeson 2007: 108) making it difficult for the prime minister to have his way within his own party (Hirashima 2004: 48). Reflecting this, Koizumi's bill was passed in 2005 at the second attempt after dissolving the parliament and calling an election (MacLachlan 2006: 13-4).

Privatisation began in 2007 with Japan Post Holdings Co. holding the stock of four private companies, including Japan Post Bank Co. (JPB). The holding company was to be initially owned by the government and the

shares gradually sold off by 2017. Banks again benefited from massive shifts of deposits out of JPB, however it formed a new competitive threat as it needed to expand into new business areas to survive as a private company (Porges and Leong 2006: 6). Where it had once enjoyed a favourable public image, aided by an election scandal in 2001 the post office had come to be seen as ‘a symbol of “bloated public finance”’ by 2005 (Amyx, Takenaka and Toyoda 2005: 38-40), helping to garner public support for privatisation.

However, with increased borrowing needed for stimulus spending during the economic crisis (Lim 2009: 4-5), the government announced plans in 2009 to halt privatisation and to retain a stake of more than 30 per cent, enough to give it a veto (Sano 2010). To enable further bond purchases, savers were again incentivised to shift their money to the post office, still seen as having an implicit state guarantee (The Economist 2010). But, as in the past, calamity intervened, this time in the shape of the 2011 Tōhoku earthquake and tsunami. Under the then-ruling Democratic Party, the previous suspension of the sale of the postal bank was lifted with the proceeds needed to finance urgent rebuilding (Sekiguchi 2012).

With the LDP back in power under Shinzō Abe, the IPO finally took place in late 2015. In response to deep-rooted sluggish economy performance, long-term deflation and the continued conservative investment

habits of an ageing population, “Abenomics” was a set of policies intended to revive the economy through monetary policy, fiscal consolidation and a growth strategy (Yoshino and Taghizadeh-Hesary 2014: 1). An important part of this was the privatisation of the post office.

As part of the quantitative easing programme, the BOJ needed to purchase more JGBs but couldn’t find enough on the secondary market (Pesek 2015). Attempts to expand lending by the post bank after 2007 had been largely unsuccessful; consequently it continued to fund state debt. At one point, it accounted for a third of the market with over 80 per cent of PSS funds used to buy JGBs, although this had fallen to 63 per cent in 2014 (Japan Post Bank 2014: 2) and 45 per cent by 2016 (The Japan Times 2016a). Privatisation was intended to force the bank to seek alternative investments with higher returns and thus hold fewer JGBs (Pesek 2015), also allowing the BOJ to purchase more of them.

Similarly, Japanese households continued to hold conservative asset portfolios compared to the West, greatly preferring cash over riskier investments like shares (Yoshino and Taghizadeh-Hesary 2014: 3). Households directly financed only five per cent of JGBs, however this figure was over 50 per cent when considering indirect channels such as banks, including JPB, and pension funds (Tokuoka 2010: 15-16). While in

the past the government used the PSS to induce the population to save, the objective changed to encouraging people to spend. In contrast to Anglo-American capitalism where neoliberalism was a reaction to inflation and initiated 'a raft of privatisations' (Docherty 2016), in Japan privatisation of the post office was intended to help generate inflation. To this end, privatisation aimed to further financialise households more in line with the West by building a 'shareholding culture' through which they could profit from share ownership (Fensom 2015) and thus be encouraged to spend rather than save.

Another way in which privatisation was to have a financialising effect was in posing a competitive threat to regional banks which previously had a monopoly in more rural areas (Oohama and Asai 2011: 246). With its branches throughout the country, the newly-privatised and competitive JPB was intended to induce consolidation among the many regional institutions (Emoto and Uranaka 2015). A reduction in regulation incentivising savers to use the JPB would further increase competition among banks in trying to attract households as customers. While the three biggest private banks had already refocused their profit-making activities outside Japan and on fee business (Kawamoto and Nozawa 2016), regional banks, which also heavily invested in JGBs, would also seek higher profits from riskier investments,

such as equities (Pesek 2015). Privatisation of JPB would therefore shift other banks' activities further towards securities markets.

The search for higher profits was also driven by the all-time low JGB yields after the BOJ announced negative interest rates in early 2016. However, JPB's exposure to interest rate risk because of its large JGB holdings caused a substantial drop in the share price just months after the IPO, an event unlikely to cause a shareholding culture to take root among Japanese households and which saw a strengthening of the cultural preference for holding cash, as evidenced by a rise in sales of safes (Shen 2016). Old habits die hard: in opposition to other banks complaints, the government raised the maximum deposit cap for JPB in April 2016 for the first time in 25 years (The Japan Times 2016b). Despite privatisation, the postal bank is still a channel for state action.

The protracted and contested nature of privatisation thus highlights the specificity and contingency of financialisation in Japan and its continued distinctness from Anglo-American capitalism. Long an archetype of state instrumentality, even after privatisation the JPB continues to be a locus for the agency of domestic actors with varying goals as they react to ever-changing circumstances.

Conclusion

Themes prevalent in some of the literature on financialisation and on changes in Japanese capitalism, although recognizing various exponents of reform, are couched in terms of unstoppable convergence on Anglo-American style capitalism. This is held to be mainly driven by continual liberalisation and deregulation as states in competition with each other court increasingly mobile global capital, leading to a persistent loss of state power. This can obscure the agency of social actors by assigning their fate to processes beyond their control.

The significant characteristic of a postal bank 'is not so much that it is "postal", as that it is a government bank' backed by the state (Kuwayama 2000: 100). Created even before the banking system in the late nineteenth century, the postal saving and insurance systems functioned since then as a relation of control to divert savings to the state, influencing the interaction of banks with businesses and individuals. It has typified the contested and contradictory nature of Japanese policy-making and has been instrumental in colouring the pace and direction of financialisation. Its involvement in affecting the ebb and flow of savings between the PSS and banks, prompting liberalisation, influencing the extent of direct and indirect household involvement in capital markets, and determining the involvement

of financial intermediaries serve to highlight the varying extents and ways in which financialisation can occur outside Anglo-American capitalism.

Examining the development of the Japanese financial system, the post office and some apparently liberal policies, highlights the pragmatic way in which the state has intervened to ‘shape market forces along lines that will enrich and empower Japan’ (Norville 1998: 112). Financialisation, therefore, is more complex and political than a strengthening of finance and a weakening of state power. Instead, it ‘should be understood as a *process* of transition rather than an end-state or destination’ (italics in original) (Malcolm 2001: 18) as it is the nature rather than the degree of power which is important. Ascertaining the extent of transition without examining the manner in which it has occurred only helps to overstate the power of structural forces, assigning them a logic of their own and overlooking the ways in which outcomes can be shaped. The result is thus not predetermined but is instead heavily contingent upon many factors including crisis, disaster, demographics and path-dependency, but most significantly the agency of a variety of domestic social actors, often with shifting and conflicting interests.

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